

## ABOUT THIS FINANCIAL REPORT

As part of our continuous effort to keep you informed on how your tax dollars are being spent, we are pleased to present the 2006 Popular Annual Financial Report (PAFR). The PAFR is a summary of the financial activities of the City's governmental funds and was drawn from information found in the 2006 Comprehensive Annual Financial Report (CAFR). The CAFR was prepared in conformance with Generally Accepted Accounting Principles (GAAP) and includes financial statements audited by Alberni, Caballero, & Castellanos, LLP.

Unlike the CAFR, the PAFR is un-audited and presented on a non-GAAP basis. The GAAP basis presentation in the CAFR includes the presentation of individual funds, as well as full disclosure of all material events, financial and non-financial, in notes to the financial statements. Copies of the CAFR and PAFR are available for public viewing at City Hall and online at [www.miamisprings-fl.gov](http://www.miamisprings-fl.gov).

## HIGHLIGHTS OF FISCAL YEAR 2006

During the January 9, 2007 Council meeting, the City received excellent news regarding its efforts to reverse the financial difficulties that culminated in the City reporting a deficit fund balance in FY 2002. The City's external auditors, Alberni, Caballero, and Castellanos L.L.P. presented Council with the FY2006 Comprehensive Annual Financial Report which showed a strong increase in the City's unreserved fund balance to almost \$3.4 million. This is even more impressive because the City's unreserved fund balance was a deficit of \$300,176 just four years ago. In four years the City has been able to increase its unreserved fund balance by almost \$3.7 million while improving the level of services provided to its residents and reducing property tax rates during the same time period.

This turn-around can be credited directly to the bold decisions of the past two City of Miami Springs Councils and the current Administration. These recommendations have included a major change in the business model for the Miami Springs Golf & Country Club, capital improvements to the clubhouse and putting greens, funding repairs to the sewer system, and re-structuring the Finance Department with the implementation of financial policies City-wide which re-established confidence in the financial reporting of City operations.

The City's current total property tax rate including debt service (7.8953) is the lowest since 1998. The City's improved financial position is evidenced by the fact that during FY2006 the City dealt with the expensive cleanup costs of Hurricane Wilma, the cost of rebuilding the golf greens, and the costs associated with improving the City's infrastructure, and was still able to increase its fund balance and lower property tax rates. The total property tax rate for the City has been reduced by 10% from a high of 8.7440 in FY2002 to 7.8953 in FY 2006. The 8.7440 property tax rate in FY2002 was the highest rate the City has ever assessed its residents.

A further indicator of good news is the City's water and sewer operation which reported its first operating profit in the past ten years.

The City's external auditors also reported that the annual financial condition assessment required by the State of Florida Auditor General showed the City had achieved a "Favorable" rating for FY2006, a significant change in the City's rating which was "Unfavorable" in FY2002 and FY2003 and "Inconclusive" for FY2004 and FY2005.

More good news was received by Council, when it was reported to them that Standard and Poor's had revised the outlook on the City's bond from BBB+ with a **stable** outlook to BBB+ with a **positive** outlook. In FY 2003 the City's bond rating was downgraded from "A" to "BBB+ with a negative outlook". The significance of the outlook being revised to "positive" reflects the likelihood for our bond rating of BBB+ being updated to a rating range of "A" in the near future (12-24 months).

Lastly, when the current administration took office in 2003, many of the City's vendors were requiring the City to pay their bills on a cash-on-delivery (C.O.D.) basis. The City's latest Dun and Bradstreet credit profile shows that 84% of the City's bills are now being paid within the terms of the vendor invoices.

## **FINANCIAL HIGHLIGHTS**

- The assets of the City of Miami Springs exceeded its liabilities at the close of the most recent fiscal year by \$23 million (net assets). Of this amount, \$4.1 million (unrestricted net assets) may be used to meet the ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$3,031,531 from \$19,976,211 in FY2005 to \$23,007,742 in FY2006. The increase was mainly attributable to current year operations. For current year operations, net assets of our business-type activities increased by \$1,901,949, while the net assets of our governmental activities increased by \$1,129,582.
- During the year, the City had expenses that were \$1,129,582 less than the \$18.3 million generated in tax and other revenues for governmental programs.
- The business type activities for the City recognized \$9.0 million in revenues against \$7.3 million in expenses that resulted in a \$1.9 million increase in net assets.
- Total cost of all of the City's programs increased by \$3.1 million with no new programs added this year. The increase was mainly due to Hurricane Wilma clean-up costs.
- The General Fund's fund balance increased by \$1,203,282 for the year ended September 30, 2006; this increase was a result of current year operations.
- At the end of the current year, unreserved fund balance for the General Fund was \$3.4 million, or 29 percent of total general fund expenditures and operating transfers
- The City's total debt increased by \$185,482 or 1.26 percent (net of principal payments on existing debt). During the year the City executed a \$500,000 Capital Improvement Revenue Note for capital projects city-wide, and a \$423,000 capital lease for equipment purchases

## **AWARDS**

The City received the following awards from the Government Finance Officers Association (GFOA):

- Certificate of Achievement for Excellence in Financial Reporting for the year ended September 30, 2005. (The FY2006 CAFR has been submitted for review and we fully expect to receive the award for FY2006).
- Distinguished Budget Presentation Award for the year ended September 30, 2005. (The FY2006 Budget has been submitted for review and we fully expect to receive the award for FY2006).
- Award for Outstanding Achievement in Popular Annual Financial Reporting for the year ended September 30, 2005. (The FY2006 PAFR has been submitted for review and we fully expect to receive the award for FY2006).

Each of these awards is valid for a period of one year only.

## TYPES OF FUNDS

### Governmental Funds

- The **General Fund** accounts for revenues and expenditures associated with the general operations of the City that are not required to be accounted for in separate funds.
- **Special Revenue Funds** account for proceeds of specific revenue sources that are legally restricted for specific purposes. (e.g. streets and schools).
- **Debt Service Funds** account for the payment of principal and interest on long term debt. Revenues for these funds are from ad-valorem taxes pledged specifically to repay certain outstanding bond issues.(e.g. Golf Course Bond).

### Enterprise Funds

Enterprise Funds account for activities the City operates similar to private businesses. The City of Miami Springs has three enterprise funds: Water & Sewer, Sanitation, and Stormwater.

The PAFR will focus on the three funds of most interest to citizens: the General Fund, Golf Course Fund, and the Water & Sewer Fund.

## THE GENERAL FUND

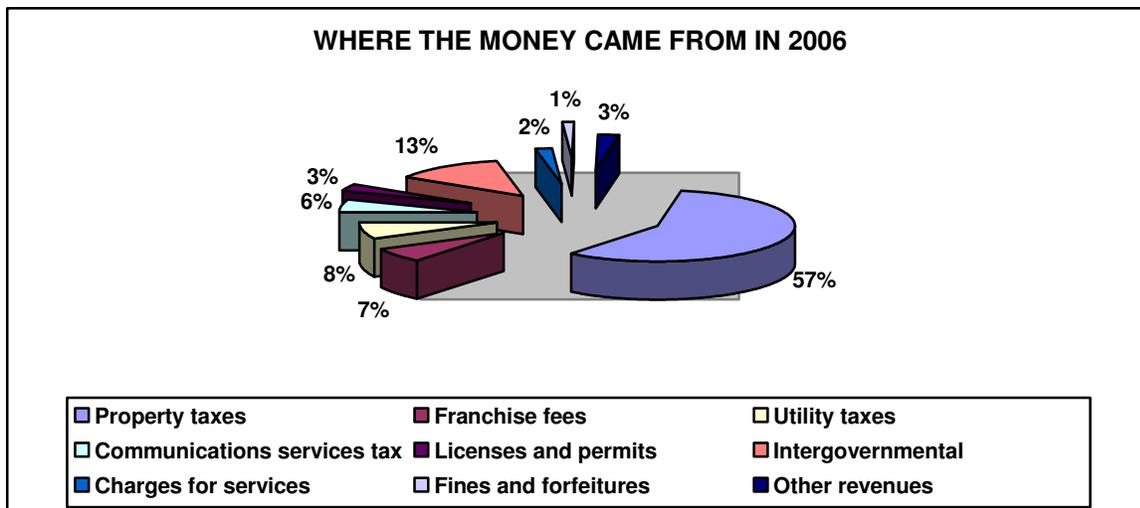
### Fund Balance

Fund Balance is the excess of what the City owns (assets) over what the City owes (debts or liabilities). The City of Miami Springs follows the GFOA's recommendation that local governments maintain a minimum of 15% of annual budgeted general fund expenditures as a fund balance. The City has exceeded this goal over the past three years; the unreserved fund balance at September 30, 2006 (\$3.4 Million) stood at 29% of expenditures. In addition, Council has designated approximately \$1.5 million of fund balance for various future City projects and equipment needs.

### General Fund Revenues

Compared to the prior year, total General Fund revenues increased by \$1,357,915 or 12.3% in fiscal year 2006. Property taxes accounted for the bulk of the increase. The \$850,458 or 14.1% increase in property tax revenue was due to increases in taxable property values. Intergovernmental revenues increased by 8.6% from FY2005 mainly due to higher revenue sharing funds received from the State. Investment income increased by 70.9% due, in part, to investments in higher yielding certificates of deposits during the year, as well as the City having additional funds to invest during the year.

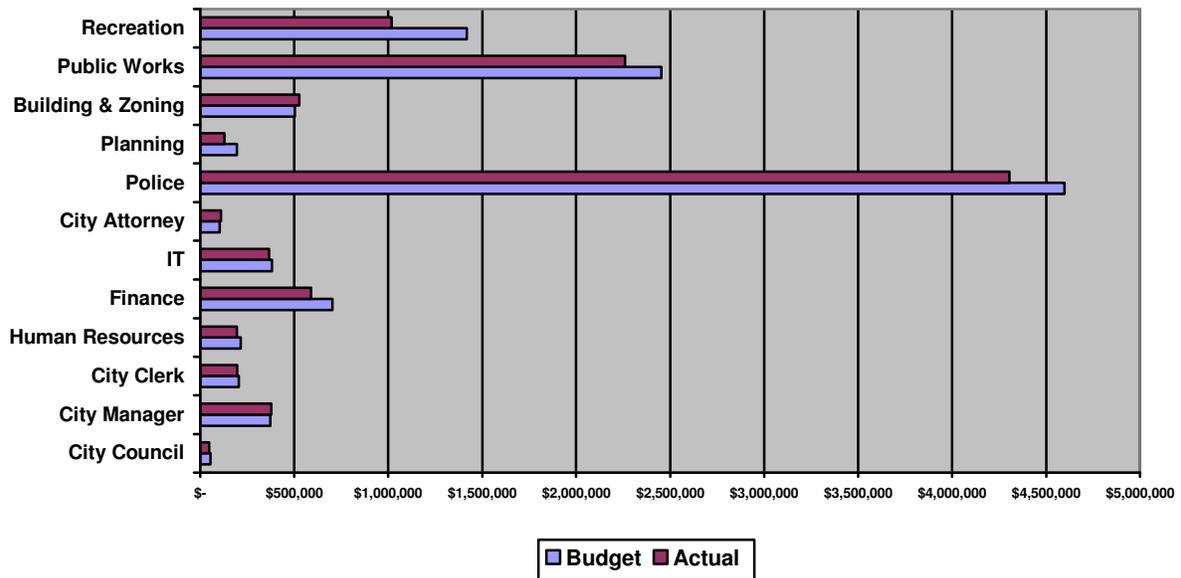
A breakdown of the composition of the revenues is provided below:



## General Fund Expenditures

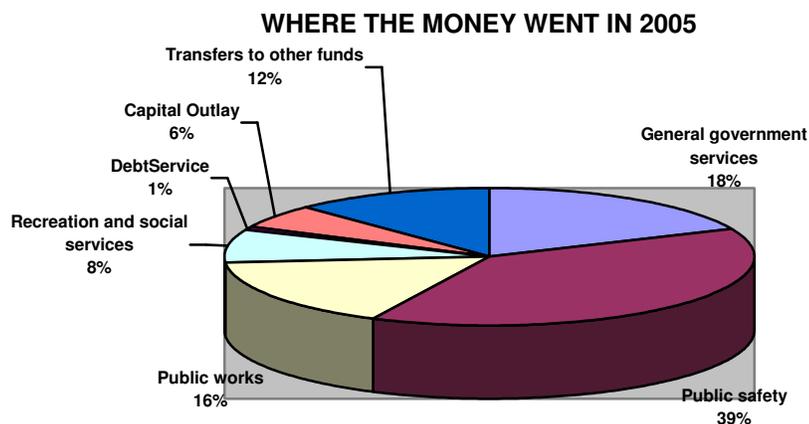
General fund expenditures totaled \$10.5 million, or \$1.3 million under final budget. Expenditures in the General Fund increased by 12.9% over the previous fiscal year. Additionally, all Departments came in under final budget, with the exception of the City Manager (\$5,536), City Attorney (\$6,385), and the Building & Zoning Departments (\$24,056). This favorable result is typical for the City of Miami Springs and results from the administration's active use of the budget to control expenditures.

### Actual Departmental Expenditures versus Budget



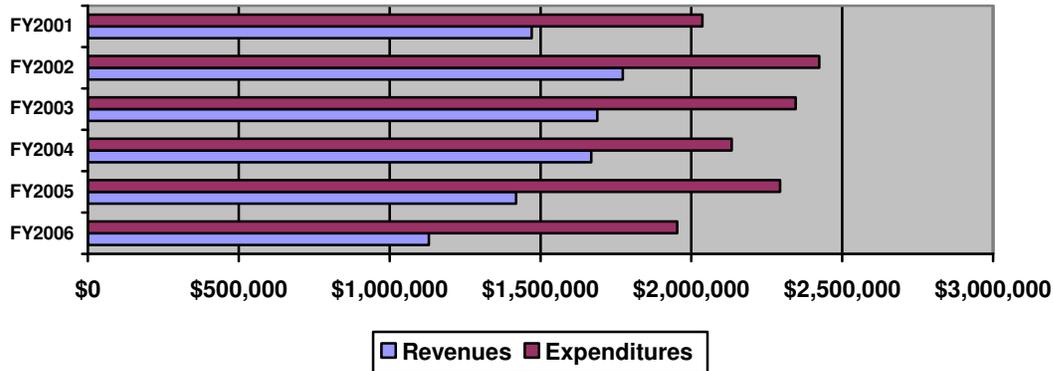
During the year, the General Fund also provided \$1,447,396 in transfers to other funds; the City incurred approximately \$726,159 in un-reimbursed hurricane clean up costs from Hurricane Wilma as well as approximately \$437,146 in costs related to the golf course, \$30,497 to the Senior center, and \$217,002 in operating transfers to the Sanitation Fund to cover operating deficits for the fiscal year.

The following chart details the way resources from the General Fund were used:



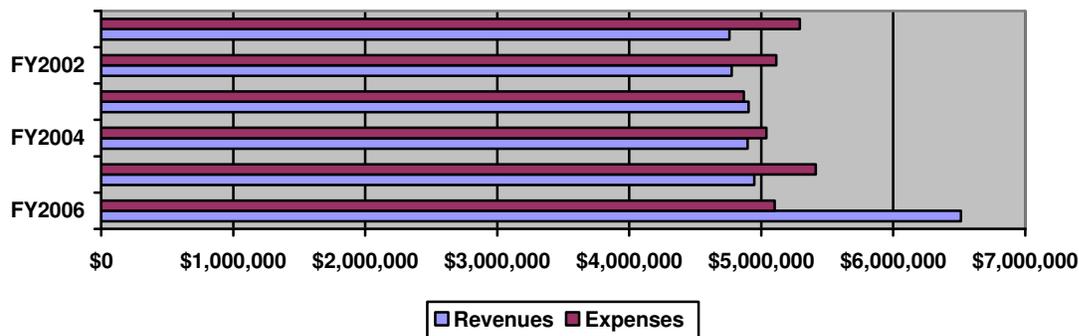
### The Golf Course Fund

Revenues for the City's golf course operations were \$1,129,747 or 20% lower than the \$1,418,661 reported in FY2005. The decrease in revenues was attributable to the outsourcing of the food and beverage operation to a private operator during the fiscal year. Expenditures for FY2006 were \$1,952,772 or 15% lower than the \$2,293,338 for FY2005, part of the reason for the decrease in expenditures is due to the outsourcing of the food and beverage operation. The Golf Course Fund had excess of expenditures over revenues of \$823,025 for the fiscal year ended September 30, 2006. This deficit was due to various factors: 1) The capital outlay for the greens renovation project done during the fiscal year, 2) the loss of revenues due to the course being closed for about six weeks during the renovation, and 3) The course was closed for most of October 2005 due to Hurricane Wilma. This deficit was funded through an operating transfer from the General Fund of \$437,148, debt proceeds of \$274,892, and available fund balance. The fund balance decreased by approximately \$110,985 during FY2006, the fund had no ending fund balance at fiscal year end.



### The Water and Sewer Fund

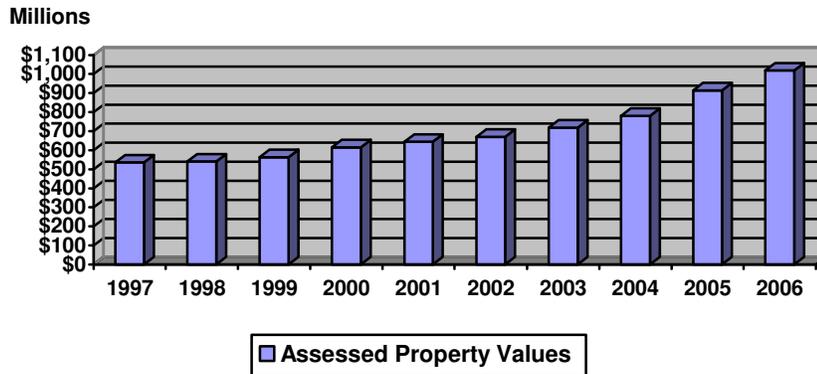
Water and sewer operating expenses decreased by \$294,333 or 6.3 percent due to various factors, the most significant of which was a reduction in sewer processing costs due to the ongoing repairs to the infrastructure system. Total revenues from the system were \$6,191,361 or \$1,245,131 (25.2%) higher FY 2006 revenues, mainly due to the rate increase put in effect at the beginning of the fiscal year. The Water and Sewer Fund reported income before transfers of \$1,412,148 for FY2006 or \$1,557,081 more than the \$144,933 loss reported in FY2005.



## Economic Growth

The City's growth in revenues is mainly attributable to the increase in commercial and residential property values as determined by the Miami-Dade County Property Appraiser. These significant annual increases in property values are expected to level off in the near future. Other factors include higher median income levels and planned growth which allows proper zoning to protect property values and quality of life.

The chart below shows the steady increase in assessed property values for the past ten years:



## Bond Rating

As a further indication of the strengthening of the City's financial condition, during December 2006, the City was notified that the outlook on its bond rating from Standard and Poor's was improved from a "BBB+ with a **stable** outlook" to "BBB+ with a **positive** outlook". The City continues to maintain an "investment-grade" rating of BBB+ however the outlook has been upgraded to "positive" based on the improvements achieved in the City's finances. The Administration's ultimate goal is to re-establish an S&P rating of "A"

## Long Term Debt

At September 30, 2006 the City had \$12.3 million in long term debt outstanding. This is comprised of \$8.7 million in Revenue Bonds for the water and sewer system and \$3.6 million in General Obligation Bonds for the purchase of the golf course.

General obligation debt is payable through a property tax levy approved by the voters and used for the purchase of the Miami Springs Golf Course and Country Club. . The millage levied in FY2006 was .4415 mills. The General Obligation Bonds mature in February, 2013.

Revenue Bond debt is paid with revenues generated by the water and sewer system. These bonds will mature in September, 2021.

Debt service requirements to maturity for the fiscal year ending September 30 are summarized as follows:

	<u>Revenue Bonds</u>		<u>General Obligation Bonds</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	410,000	422,670	220,000	176,808	630,000	599,478
2008	430,000	404,425	230,000	166,175	660,000	570,600
2009	450,000	385,075	245,000	154,771	695,000	539,846
2010	470,000	364,825	255,000	142,519	725,000	507,344
2011	490,000	343,440	270,000	129,458	760,000	472,898
2012-2016	2,835,000	1,338,350	1,580,000	417,974	4,415,000	1,756,324
2017-2021	<u>3,610,000</u>	<u>559,000</u>	<u>760,000</u>	<u>40,810</u>	<u>4,370,000</u>	<u>599,810</u>
	8,695,000	3,817,785	3,560,000	1,228,515	12,255,000	5,046,300
Net unamortized Costs	<u>(189,879)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(189,879)</u>	<u>-</u>
Total, net	<u>\$8,505,121</u>	<u>\$3,817,785</u>	<u>\$3,560,000</u>	<u>\$1,228,515</u>	<u>\$12,065,121</u>	<u>\$5,046,300</u>

## **Other Debt**

### **FDOT Note Payable**

On October 1, 2002, the City signed a non-interest bearing promissory note ( the "Note") with the Florida Department of Transportation (the "FDOT") in the amount of \$1,239,390 for the cost of relocating water and sewer utility lines located in the FDOT's right of way related to the "Lejeune Flyover Project". Under the terms of the note, the City is required to make 180 monthly payments of \$6,885 beginning on October 2002. However, if the total project costs upon completion are lower or greater than the original amount of the note, a new promissory note would be executed for the final project costs less payments made by the City as of the date of project completion. On February 1, 2005, a new non-interest bearing promissory note was signed by the City in the amount of \$608,428. Under the terms of the new note, the City is required to make 151 monthly installments of \$4,003 beginning February 1, 2005. The outstanding balance at September 30, 2006 was \$528,372.

### **Miami-Dade County Loan Payable**

During fiscal year 2003, Miami Dade County (the "County") commenced a canal dredging project which was to be paid by various municipalities based on a local match responsibility allocation. During FY 2005, the County updated its cost estimates and the City's responsibility was determined to be \$414,578. On December 20, 2005, the city executed an interlocal agreement with Miami Dade County for the repayment of this debt. Under the terms of this agreement, the note will be repaid by the City in ten annual payments of \$41,458 plus interest, commencing December 20, 2006 and ending with a final payment on December 20, 2015. The note bears interest at a variable rate. At September 30, 2006, the rate was 4.51% and the outstanding balance was \$414,578.

### **Capital Improvement Revenue Note**

On May 1, 2006, the City executed a \$500,000 Capital Improvement Revenue Note with Wachovia Bank. The Note has an interest rate of 4.22%, matures on May 1, 2011, and is collateralized by all legally available non ad-valorem revenues of the City. Proceeds were used for the renovation and improvement of the City's golf course at a cost of \$150,000, \$200,000 to replace restrooms at the City's parks, and \$150,000 for upgrading city hall security. Under the terms of the Note, the City is required to make twenty (20) quarterly payments principal and interest in the amount of \$27,861 commencing on August 1, 2006 and ending with the final payment of \$27,861 on May 1, 2011. At September 30, 2006, the outstanding balance was \$477,531.

## **Long Term Financial Plan**

During the 2005 fiscal year, Miami-Dade County voters approved a bond issue which will provide municipalities within the County with funding for specific projects. The City of Miami Springs is targeted to receive approximately \$1.5 million toward the construction or renovation of the City's gymnasium. The Administration and Council are aggressively seeking additional funding sources in order to construct a recreational complex to replace our aging facilities. The City is also targeted to receive another \$1.5 million for the water and sewer infrastructure. These funds will help reduce the current costs of operating the system as well as reduce the subsidies from the General Fund that have been provided in prior years. This will also result in additional funds in the General Fund that may be earmarked for other citywide projects or rebuilding cash reserves. Additionally, the City will receive \$1 million from this bond issue for the restoration of the Curtis Mansion.

The City Council and the Administration both recognize the importance of expanding the City's commercial tax base for future economic health and to reduce the tax burden on the residents. To this end, the City is aggressively pursuing the re-development of the NW 36<sup>th</sup> Street corridor, and the improvement of the downtown district ("the Circle"). The City has also taken important steps to bring the golf course operation back to profitability. The outsourcing of the food and beverage function and the establishment of a Golf Department, will provide future benefits to the City as can already be seen in increased golf revenues, the elimination of food and beverage losses, and the reduction of subsidies from the General Fund.

The City continues to address the infiltration and inflow problems of the aging sewer system infrastructure. The City has budgeted approximately \$750,000 in FY 2006-07 for permanent repairs to the system.

The City is currently negotiating with Miami-Dade County regarding the possibility of the County taking over the City's water and sewer operations. Prior to FY2006 this operation had operated at deficit levels. This led to the City implementing rate increases which have risen to the point that the City of Miami Springs has the highest water and sewer rates of any municipality in the county. If successful, this may represent a substantial net savings to our residents and allow the City to focus its efforts in other areas.

The City's recreational facilities are aging and need renovation and/or replacement. The Administration was requested by Council to prepare a master plan for new facilities, the proposed plan would cost approximately \$10-12 million. If approved by Council, the City will need to obtain financing for this project. Since the City already has approximately \$2 million available for this project, financing in the amount of \$8-10 million would be required.

In October 2005, the City incurred significant damage from Hurricane Wilma. Hurricane Wilma cost the City almost \$4.2 million with approximately \$3.5 million being reimbursed by the Federal Emergency Management Agency (FEMA). The City's general fund subsidized the remaining \$726,159 in un-reimbursable expenditures. Since most experts anticipate more years of active hurricane seasons, it is imperative that the City budget and allocate sufficient contingency funds to meet these future losses.

**For more information on this report or the City's finances, please call the Finance Department at 305-805-5014**